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Audit Oversight

Review of the Quality Control
System at the National Security
Agency Inspector General Office of
Audits
(D-2003-6-005)

Office of the Inspector General
of the Department of Defense

Quality

Integrity

Accountability

Report Documentation Page

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Acronyms

GAS	Government Auditing Standards
NSA	National Security Agency
OIG	Office of the Inspector General

March 13, 2003

MEMORANDUM FOR INSPECTOR GENERAL, NATIONAL SECURITY AGENCY

SUBJECT: Review of the Quality Control System at the National Security Agency
Inspector General Office of Audits (Report No. D-2003-6-005)

We are providing this memorandum for your information and use. The Government Auditing Standards require that audit organizations that conduct audits in accordance with the standards have an appropriate internal quality control system in place and undergo an external quality control review every 3 years by an organization not affiliated with the organization being reviewed. Our review of the National Security Agency (NSA) Office of the Inspector General (OIG) Office of Audits was to ensure compliance with Government Auditing Standards (GAS). As the organization that has audit policy and oversight responsibilities for audits in the DoD, we facilitated and oversaw the conduct of this external peer review of the NSA OIG Office of Audits. To avoid unnecessary duplication and disruption, the audit external quality control review of NSA was done concurrently with the management review of the NSA OIG conducted by the Office of the Assistant Inspector General for Intelligence, Office of the Inspector General of the Department of Defense.

Background. The foreign intelligence mission of the NSA is both national and defense in nature, and it encompasses signals intelligence, information security, and operations security. The Office of Audits is responsible for producing quality results in terms of making constructive recommendations to significantly improve NSA operations; identifying funds to be put to better use; and preventing and detecting fraud, waste, and mismanagement in accomplishing the NSA mission. The Inspector General, NSA is delegated the authority from the Director, NSA/Chief, Central Security Service to conduct audits. Audits within NSA are executed by the Office of Audits under the management and direction of the Senior Assistant Inspector General for Audits. The National Security Agency/Central Security Service Office of Audits Office of the Inspector General Audit Manual (hereafter referred to as Audit Manual), January 2002, provides guidance on the operation of audits within NSA.

Quality Control Review Objectives. The objectives of the review were to determine whether the system of quality control for the Office of Audits in effect for the year ended June 30, 2002, was designed to provide the NSA OIG with reasonable assurance of material compliance with established policies, procedures, and government auditing standards in the conduct of its audits and that the system of quality control was being complied with for the year then ended. The Office of Audits issued 11 final audit reports during July 2001 through June 2002, the period reviewed. Appendix A contains a summary of the quality control review process.

Review Results. The system of quality control for the audit function of the NSA OIG in effect for the year ended June 30, 2002, has been designed in accordance with established policies, procedures, and government auditing standards. The Office of Audits complied with the system of quality control for the year then ended to provide reasonable assurance of material compliance with established policies, procedures, and government auditing standards in the conduct of its audits. Our review did not disclose any material weaknesses in the system of quality control for the Office of Audits. The quality control

system had many quality policies, procedures, and practices that enhanced both audit effectiveness and efficiency as well as skilled, competent staff; high quality audit manual and policies; and well documented working papers that contained sufficient, competent, and relevant evidence. We did make some observations where improvements could be made in complying with government auditing standards and your internal audit policies and procedures. These observations are not of sufficient significance to affect our overall conclusion as expressed in this memorandum.

Staff Qualifications. The NSA audit staff is highly experienced and collectively possesses adequate proficiency to accomplish the work assigned as described in the Audit Manual. However, the Office of Audits should have a more balanced training program, better documentation of training, and a review requirement when there are disagreements between the audit team and consultants or internal specialists.

We reviewed training and educational activity documentation for the period of January 1, 2001, through October 15, 2002, for the nine current full-time auditors on the NSA Office of Audits staff. Overall, we found that all audit staff are receiving sufficient training to meet the required continuing education requirements. There has been a heavy emphasis on information technology course work to meet the continuing education requirements including the 24 hours related to the government environment and government auditing. Audit staff training should not be concentrated on information technology for the 24-hour continuing professional education requirement because it could be interpreted as not being specific or unique to the government environment.

The Qualifications standard requires individuals responsible for planning or directing an audit, conducting substantial portions of the field work, or reporting on the audit under GAS to complete at least 24 of the 80 hours of continuing professional education training in subjects directly related to the government environment and to government auditing. If the audited entity operates in a specific or unique environment, auditors should receive training that is related to that environment. The audit organization is responsible for establishing and implementing a program for meeting the continuing education and training requirements and maintaining documentation of the education and training completed. The GAS continuing education and training requirements are implemented through the Audit Manual Section 201.3-201.8. The Qualifications standard also indicates that an organization may need to employ personnel or hire outside consultants knowledgeable in such areas as accounting, statistics, law, engineering, audit design and methodology, automated data processing, public administration, economics, social sciences, or actuarial science.

The General Accounting Office, Government Auditing Standards, "Interpretation of Continuing Education and Training Requirements," April 1991 states that the 24-hour requirement calls for auditors to obtain 24 hours of continuing professional education in subjects and topics directly related to the government environment and to government auditing or the specific or unique environment in which the audited entity operates. The April 1991 Interpretation goes on to provide guidelines on subjects and topics that would qualify for the 24-hour requirement. In the past, General Accounting Office personnel within the Government Auditing Standards division have responded to specific questions related to information technology training as not qualifying for the 24-hour requirement. The General Accounting Office personnel emphasized that the guidelines focus on course

content such as knowledge of government accounting and auditing standards, legal and regulatory requirements, and knowledge of government programs and activities necessary for government auditors to perform quality audits of a governmental entity.

Emphasis on information technology training was caused by the emphasis on information technology systems at NSA, sponsorship of information technology courses by the NSA at no cost to the OIG, and the low training budget of the Office of Audits. However, there are low-cost courses such as self-study courses on Performance Audits of Governmental Entities and Yellow Book Government Auditing Standards that can provide audit-related training to meet the 24-hour continuing professional education requirements in government environment and auditing. The Office of Audits should have a more balanced training program consisting of continuing professional education involving the government environment and government auditing.

We also noted instances where continuing professional education hours were not shown on the certificates of completion, and certificates were not provided. In some instances, proof of class attendance was based on memorandum and travel documentation. The Office of Audits should document hours of continuing professional education and course completion when certificates are not provided.

In addition, the Audit Manual does not contain a requirement for review by an appropriate level when there is a disagreement between an audit team and a consultant or internal specialist.

Independence. The OIG maintains its independence and is not impeded in accomplishing its intended mission. Our review was performed based on the prior independence standard which made the audit organization responsible for having policies and procedures in place to help determine if auditors have any personal impairments. The NSA OIG Office of Audits met the GAS independence standard requirements prior to January 2003, when the new independence standard was effective. See scope limitations indicated in Appendix A.

Due Professional Care. The OIG auditors used sound judgment in conducting their audits.

Quality Control. The Office of Audits did not consistently use the prescribed Audit Manual checklists, which are used by the auditor-in-charge, editor, and secretary to process draft and final reports. One memorandum report, which included observations based on an auditor's review of a certified public accountant firm's working papers, was not cross-referenced to the supporting working papers and lacked evidence of an independent referencing review of the audit report to supporting working papers. We also identified an instance where, contrary to the Audit Manual, the person performing the referencing validation was not entirely independent because the individual had been part of the original audit project team. Office of Audits personnel indicated that staff size, availability, and impact on schedule factor into the selection of the independent person. The Office of Audits needs to ensure that persons performing referencing validation have no direct relationship with the audit. According to the Senior Assistant Inspector General for Audits, audits that ended in the period under evaluation used different checklists because at that time NSA was going through a period of changing from one audit manual to another.

Audit Planning. The planning process is sufficient to ensure that audits addressing significant issues are performed and that resources are efficiently allocated to complete those projects. An annual audit plan is prepared and issued and covers major program and support areas. The plan is reasonable and audits carried over from year to year are completed in a timely manner during the course of the next fiscal year before new audits are begun. The NSA OIG meets established criteria for followup by maintaining complete, accurate, and reliable records of the status of audit findings and recommendations. Overall, we found that the audits performed were generally well planned and executed with reports being issued in a timely manner.

Supervision. In general, audit supervision at all levels was well provided to ensure a quality report acceptable to management. Working papers of staff auditors are reviewed in a timely manner by the auditor-in-charge. Generally, no one reviewed the working papers of the auditor-in-charge. Instead of supervisory review of auditor-in-charge working papers, the Senior Assistant Inspector General for Audits holds monthly supervisory meetings, and meetings are also held with the Deputy Inspector General to provide an additional level of supervision to the audit working papers. The Senior Assistant Inspector General for Audits indicated that the structure within the Office of Audits lacks layers/hierarchical structure, and their structure is not conducive to supervisory review of auditor-in-charge working papers. The NSA OIG Office of Audits had compensating/mitigating controls in place to ensure they met the supervision standard.

Evidence and Working Papers. On the whole, working papers provided sufficient, competent, and relevant evidence to support audit findings and conclusions. We found improper classification markings either higher or lower than should be on some working papers and binders.

Internal Controls. The audits met the standards for reviewing and reporting internal controls. NSA OIG auditors substantively addressed internal controls during the performance of the seven audits reviewed.

Illegal Acts, Other Noncompliance and Abuse. There were no indications of risk of illegal acts or other noncompliance for the reports we reviewed. Auditors did not generally use legal counsel except on a case-by-case basis. We believe the Audit Manual should be revised to include a mechanism to document whether or not legal review was needed and obtained.

Reports on Audits. Reports were well received by management. Findings and conclusions were well supported and documented. Reports were clear, concise, and met audit objectives. One report did not include a scope paragraph or a statement that the audit was conducted in accordance with generally accepted Government Auditing Standards, as required by GAS and the Audit Manual. One audit used only statements of condition for the finding paragraph. The Audit Manual Section 755.3 requires condition, criteria, cause, and effect.

Recommendations. To make the improvements, the Inspector General, National Security Agency should require the Senior Assistant Inspector General for Audit to:

1. Develop a training program for audit staff that is more balanced across all functional areas to meet the 24-hour continuing education and training requirements in subjects directly related to the government environment and government auditing.

2. Develop guidelines for documenting and recording continuing professional education and provide training to the Office of the Inspector General administrative officer on what constitutes satisfactory training documentation in accordance with Government Auditing Standards and the General Accounting Office Interpretation of Continuing Education and Training Requirements, April 1991 (www.gao.gov under The Yellow Book, Related Guidance).

3. Expand the review checklists of the Audit Manual to ensure that:

a. The security classification markings on the working papers and the binders are properly classified.

b. Persons performing referencing validation have no direct relationship with the audit.

c. Changes in report content adhere to Government Auditing Standards and the Audit Manual.

d. Add a requirement to the Audit Manual checklists to require an indication of whether or not legal counsel was consulted.

4. Add a requirement to the Audit Manual to identify the appropriate level of review when there is a disagreement between the audit team and a consultant.

5. Remind auditors of their responsibility to check, initial, and date all applicable checklists prescribed by the Audit Manual and periodically review working paper files for the checklists to assure conformance with Audit Manual checklist requirements.

We appreciate the courtesies extended during the review. If you have questions on this memorandum, please contact Ms. Carolyn R. Davis at (703) 604-8877. See Appendix B for the report distribution. The review team members are listed inside the back cover of the report.



Patricia A. Brannin

Deputy Assistant Inspector General
for Audit Policy and Oversight

Appendix A. Quality Control Review Process

Scope

The review team tested compliance with the NSA OIG's system of quality control to the extent considered appropriate. These tests included a review of 7 of 11 audit reports issued between July 1, 2001, and June 30, 2002. The review team reviewed working papers for the selected audits, conducted interviews of professional and administrative staff members, and performed tests of documentation.

Scope Limitations. The review was for the purpose of determining whether the NSA OIG internal quality control system was designed to provide reasonable assurance of material compliance with established policies, procedures, and government auditing standards in the conduct of its audits and was being complied with for the year reviewed. We conducted our review in conformance with standards and guidelines established by the President's Council on Integrity and Efficiency. The review would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it because our review was based on selective tests. Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected.

Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate. GAS Amendment No. 3, Independence, January 25, 2002, requires that the audit organization should have an internal quality control system to help determine if auditors have any personal impairment to independence that could affect their impartiality or the appearance of impartiality. Our review period ended June 30, 2002; However, GAS Answers to Independence Standard Questions, July 2002, indicates that the independence standard's provisions are applicable to all audits for periods beginning on or after January 1, 2003.

Methodology

From October 2002 through February 2003, the external review team conducted a quality control review of the audit function for the Office of Audits in effect for the period July 1, 2001, through June 30, 2002. The team used the guidelines and checklists established by the President's Council on Integrity and Efficiency as amended February 2002 to ensure that the review was in conformance with GAS. The team used the President's Council on Integrity and Efficiency checklist items to review:

- Staff Qualifications;
- Independence;
- Due Professional Care;
- Quality Control;

-
- Audit Planning;
 - Supervision;
 - Evidence and Working Papers;
 - Internal Controls;
 - Illegal Acts, Other Noncompliance and Abuse; and,
 - Reports on Audits.

The review team adjusted the President's Council on Integrity and Efficiency guidelines and checklists as appropriate to reflect the Office of Audits. The review team considered several factors in applying the President's Council on Integrity and Efficiency guidelines, such as the size of the Office of Audits, the degree of operating autonomy allowed, and the nature of work. In conducting the review, the review team reviewed 7 of 11 audit reports issued in the period reviewed and associated working papers for the reports.

NSA Audit Policies and Procedures

National Security Agency/Central Security Service Office of the Inspector General, Office of Audits, Audit Manual, January 2002, provides guidance on the operation of audits within NSA. Government Auditing Standards published by the U.S. Comptroller General are the criteria guiding auditors in their work to ensure quality and reliable audit results. Government Auditing Standards require that the internal quality control system established by the audit organization should provide reasonable assurance that it has adopted, and is following, applicable auditing standards and has established, and is following, adequate audit policies and procedures. The Department of Defense (DoD) Internal Audit Manual implements the Comptroller General's auditing standards in DoD.

To implement an internal quality control system, the Audit Manual specifically adopts and expands on the Comptroller General's auditing standards, consistent with NSA authorities for use by its auditors.

DoD Intelligence Agency Audit External Review Process

The review was done in accordance with the process established to facilitate the external reviews of the DoD intelligence agencies. As a part of this process, we established a review team of experienced senior auditors from the DoD intelligence organizations except for the organization under review. The OIG, DoD provided training and oversight for the review.

Appendix B. Report Distribution

Other Defense Organizations

Director, National Security Agency
Inspector General, National Security Agency

Congressional Committees and Subcommittees, Chair and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Efficiency, Financial Management, and
Intergovernmental Relations, Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International Relations,
Committee on Government Reform

Team Members

The Deputy Assistant Inspector General for Audit Policy and Oversight, Office of the Assistant Inspector General for Inspections and Policy of the Department of Defense prepared this report. Personnel of the Office of the Inspector General of the Department of Defense and other organizations who contributed to the report are listed below.

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